ENERGY CORPORATION

FAIRWEST

ANNUAL REPORT 2006

Financial Highlights	December 31,2006 (12 Months)	December 31,2005 (13 Months)
	$	$
Revenue		
Petroleum and natural gas sales, net of royalties	3,974,032	3,788,321
Other income	346,227	416,729
Total Revenue	4,320,259	4,205,050
Expenses		
Depletion, depreciation and amortization	3,075,644	3,525,848
Operating costs	1,513,433	905,635
Interest and bank charges	256,115	179,235
General and administrative expense	869,688	887,996
Stock-based compensation	287,413	-
Part XII.6 tax	77,516	62,574
Future income tax (recovery)	(1,411,345)	(660,400)
Total expenses	4,668,464	4,900,888
Net income (loss)	(348,205)	(695,838)
Funds flow from operations	1,263,251	1,946,145
Capital expenditures	10,779,717	31,704,870
Share Data		
Common shares outstanding	61,444,307	53,088,228
Warrants outstanding	3,000,000	2,420,000
Options outstanding	5,899,116	378,579
Weighted average number of common shares		
Basic	56,362,509	31,157,750
Diluted	56,362,509	31,157,750
Basic income (loss) per share	(0.006)	(0.022)
Diluted income (loss) per share	(0.006)	(0.022)

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FORWARD-LOOKING STATEMENTS

Contained in this report are certain "forward-looking" statements. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated.

MESSAGE TO SHAREHOLDERS

Dear Fellow Shareholder:

2006 proved to be a very eventful year for FairWest. It was a year marked by the review and exploitation of assets acquired in 2005, assumption of operatorship in most of our core operating areas, the acquisition of land and 3D seismic information, and the drilling of 21 wells (9.28 net).

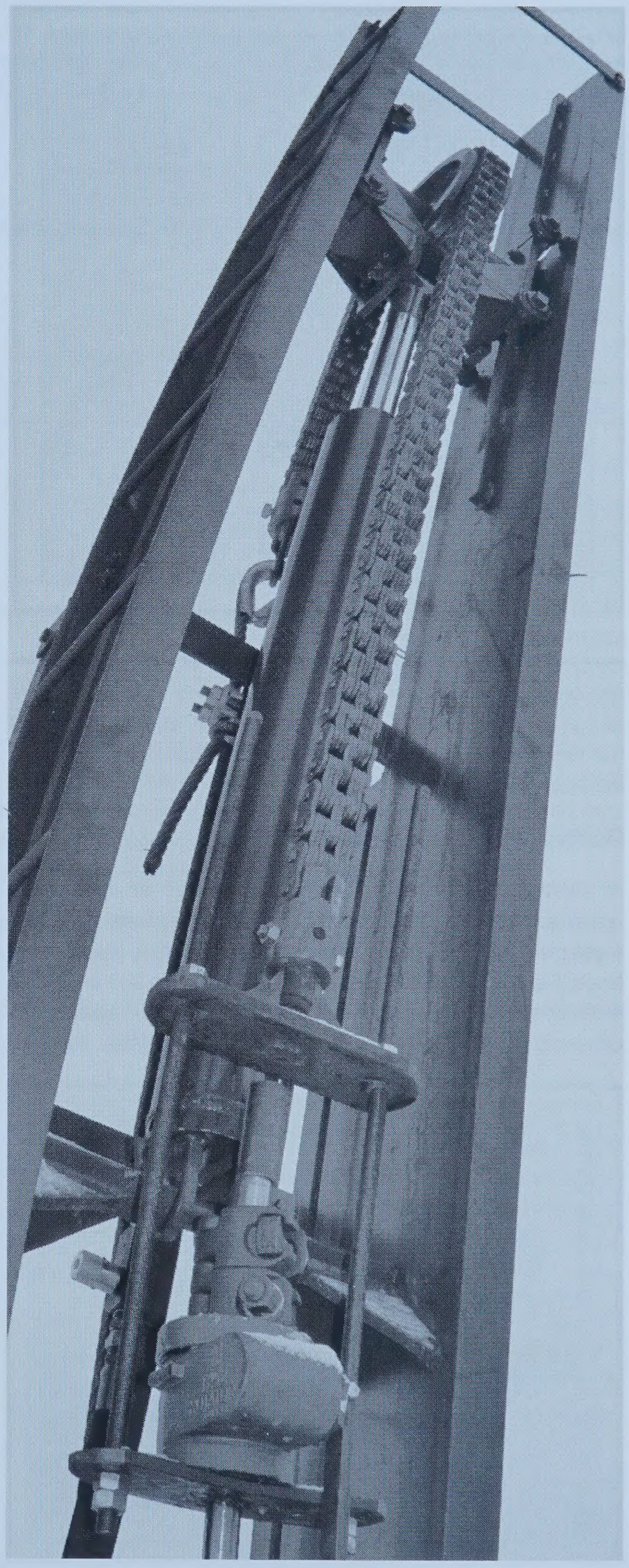
Our focus during 2006 was to move forward with the implementation of FairWest's exploration and production cycle. Drilling activities were focused in Antelope and Berry Creek, Alberta. In Provost, Alberta and Burstall, Saskatchewan attention was directed to property acquisitions and the improvement of production from existing wells.

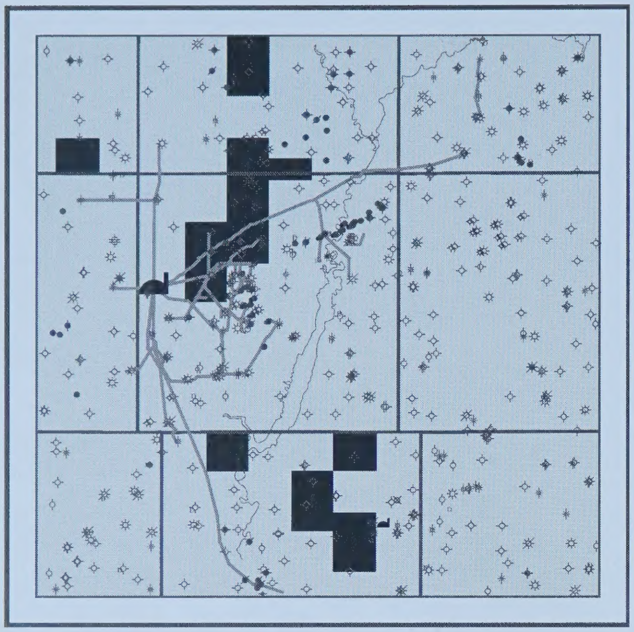
ANTELOPE, ALBERTA

We have successfully worked through an entire cycle at our Antelope core area in eastern Alberta with positive results. Beginning with an area review in September 2005, the FairWest team worked Antelope through the stages of the cycle, including the acquisition and review of 3D seismic and acquisition of undeveloped land in the area, culminating in the successful drilling of 13 natural gas wells. FairWest completed the design and construction of a 12 mile low pressure gathering system that allowed us to commence production in late January 2007. Independent evaluators have estimated 2007 production from Antelope to average 225 boe/d. Proved plus probable reserves at Antelope, discounted at 10 percent, are equal to $10.6 million.

BERRY CREEK, ALBERTA

Five natural gas wells were drilled in Berry Creek, Alberta during 2006. Two wells are tied in and producing, one is a new discovery waiting on tie in and two are suspended gas wells. Independent evaluators have estimated this area will contribute 97 boe/d for 2007. FairWest owns interests in 9,280 (3,145 net) acres of land in this area with various working interest levels. In the fourth quarter of 2006, FairWest acquired a 100 percent interest in a gathering and gas processing facility at Berry Creek. FairWest became operator of the gas plant and contract operator of 30 wells that are tied into the facilities. The gas plant has existing throughput of 2 mmcf/d which can be increased to 6 mmcf/d with a minor modification. The acquisition of this gas plant has allowed FairWest to tie in its drilled wells quickly and control the optimization of FairWest's assets in this area. FairWest is now in



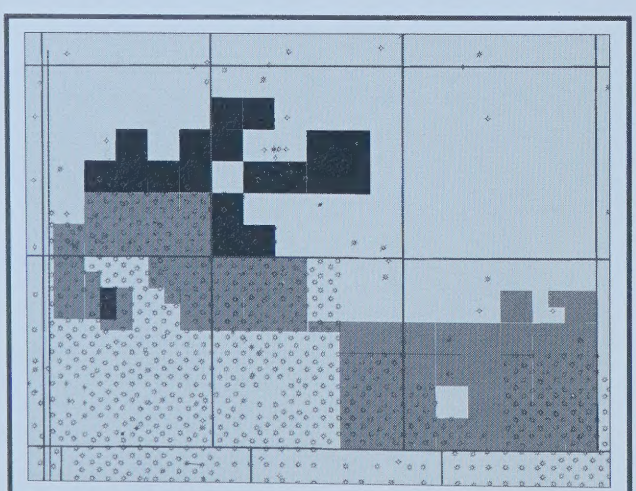


BERRY CREEK, ALBERTA

a position to generate custom processing fee income from the gas plant. The combination of operatorship and ownership of the facilities has the net effect of reducing operating costs and increasing reserve life for FairWest.

BURSTALL, SASKATCHEWAN

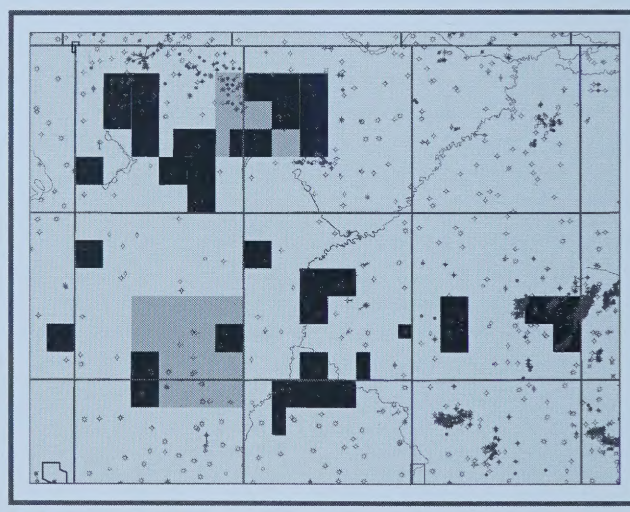
At Burstall, Saskatchewan, FairWest acquired an 80 percent working interest in 18 sections of land, 50 shallow gas wells, and a gas plant for $1.05 million. Immediately adjacent to the acquired lands, FairWest also holds a 9.2 percent interest in 340 producing wells and an extensive gathering and compression system that connects the wells to third party processing facilities. FairWest has new technology that has increased productivity from a pilot project in Burstall. The prototype of this technology has been operational since October 2006. Results from the evaluation of this device at the test well demonstrate a five fold increase in productivity. In addition, our test results would also suggest that, in comparison with more traditional production techniques, use of this device can help us substantially increase recovery factors from existing well bores on the property. Following minor modifications, this device is scheduled to be installed on 50 wells during the fourth quarter of 2007.



BURSTALL, SASKATCHEWAN

PROVOST, ALBERTA

Production optimization is part of an on-going exploration and production strategy in Provost, Alberta. FairWest has designed and installed an innovative and cost-effective hydraulic pump jack on 8 (4.6 net) wells in Provost. The independent engineering report for 2007 assigned $1.43 million of proved producing reserves for the FairWest wells based on the success of this pumping system compared to $0.2 million of proved producing reserves for the same wells in 2006 before we started using this technology.



PROVOST, ALBERTA

The 3D seismic programs are presently being reviewed by the FairWest geological and geophysical team. FairWest has already identified several exciting leads that are currently being pursued.

PRODUCTION

Average production for the year was 257 barrels of oil equivalent per day, of which approximately 81 percent was natural gas, compared to 244 boe/d in 2005. Production increases from drilling in 2006 were delayed until the end of January 2007 as the Antelope gathering system took longer to complete than anticipated. This low pressure gathering system connects our production to an underutilized gas plant that is capable of processing our gas at very attractive processing fees compared to competitive rates at other plants.

FairWest has projected proved plus probable production will average approximately 650 boe/d for 2007. This projection does not take into account new production from exploration activities and production from the proposed acquisition of Strike Petroleum Ltd. ("Strike"). Capital of $3.2 million will be required for various activities to achieve these levels. The funds to complete these activities will be generated from cash flow.

RESERVES

The following table sets out the Company's gross proved plus probable reserves, based on forecast prices and costs, before income taxes by area:

Property	Light and Medium Oil MSTB	Sales Gas MMscf	NGL Mbbls	Cumulative Cash Flow (BIT), discounted at 10 percent/year M$
Alberta				
Antelope	0	3,445	0	10,589
Berry Creek	40	1,547	31	5,931
Provost	126	2,275	6	9,597
Other	0	662	21	2,131
Total Alberta	166	7,929	58	28,248
Saskatchewan				
Burstall	0	1,486	0	1,971
Total Saskatchewan	0	1,486	0	1,971
Total	166	9,415	58	30,219

Reserve calculations for 2006 have been adjusted downwards from reserve calculations for 2005. The engineering evaluation for 2005 contained a category called "probable undeveloped" or "undrilled locations". In the report relating to our 2005 reserves, this amounted to 1,246 mboe of undrilled reserves. In the report relating to our 2006 reserves, this amount was reduced to 178 mboe. The undrilled reserve volumes in the 2005 report may still be valid, and provided they meet economic criteria, will be drilled in the future.

Management of FairWest are in full support of the decision to reduce the "undrilled probable undeveloped" categories and intends to continue using this method of forecasting less aggressive targets and results for future drilling and acquisitions.

FairWest has added to its geological staff. This geological team will review all of the locations in the 2005 and 2006 "probable undeveloped" category and recommend suitable drilling prospects.

Total Net Proved plus Probable to Appraised Interest

Description	Light & Medium Oil (MSTB)	Heavy Oil (MSTB)	Associated & Non Associated Gas (MMscf)
Reserves at January 1, 2006	190	0	10,235
Production (Sales)	(12)	0	(433)
Acquisitions	0	0	265
Dispositions	(29)	0	(776)
Discoveries	17	0	1,734
Extensions	0	0	81
Revisions to Previous Estimates:			
Economic Factors	0	0	0
Technical	(14)	0	(3,376)
Improved Recovery	0	0	0
Reserves at January 1, 2007	152	0	7,730

FINANCIAL

During 2006, an experienced professional financial team, current on corporate governance issues, able to handle all reporting requirements with shareholder and governing bodies managed FairWest's financial affairs. This financial team has been instrumental in administering the business plan and raising the cash resources needed to complete the capital expenditure program conducted in 2006. FairWest's reporting system allows our company to track progress as we reach the milestones included in the business plan.

In order to comply with Multi-lateral Instrument 52-109, FairWest outsourced the work associated with management's assessment of its disclosure controls and procedures and internal control over financial reporting. In March 2007, our service provider reviewed the state of FairWest's internal controls with our Audit Committee and made recommendation for changes. During the balance of 2007, management will implement the changes to our internal control systems recommended by our internal control consultants.

For year ended December 31, 2006 the Company's revenue net of royalties from petroleum and natural gas sales increased to $3.97 million from $3.79 million in 2005. This increase to revenue occurred despite the significant drop in natural gas prices experienced in 2006. For the year ended December 31, 2006, FairWest's funds flow from operations decreased to $1.26 million from $1.95 million in 2005.

During the year FairWest issued 8.36 million shares for net proceeds of $4.82 million. The majority of the share proceeds were used for 3D seismic expenditures and intangible drilling and completion expenditures associated with our 2006 drilling programs.

At the end of the year FairWest had drawn $3.68 million on its $5.9 million revolving demand loan and had drawn a further $.96 million against its $2.0 million non-revolving acquisition/development loan. Subsequent to year end, FairWest has asked its lender to increase its revolving demand loan, increase the availability of the non-revolving acquisition/development facility and provide an increase in its lending facilities to accommodate the proposed acquisition of Strike Petroleum Ltd.

Capital expenditures during 2006 were $10.8 million compared to $31.7 million for 2005. The majority of FairWest 2006 capital expenditures related to the cost of undeveloped land, 3D seismic, drilling, completion and tie in of the 21 wells that were drilled during the year. During 2005, the most significant capital expenditures related to the corporate acquisitions that were concluded during the period and the various exploration and development programs that were conducted by FairWest. The table that follows details the type of expenditures made during 2006 and 2007.

	December 31,2006 (12 Months)	December 31, 2005 (13 Months)
Lease rental	**17,317**	19,901
Seismic	**730,618**	3,034,062
Drilling and completions	**5,654,916**	1,641,146
Equipping and tie in	**2,775,225**	457,606
Corporate acquisitions (disposals)	**(769,945)**	23,731,241
Undeveloped land acquisition	**1,469,128**	-
Mining asset	**-**	2,172,323
Other	**51,660**	256,840
Capitalized overhead	**850,798**	391,721
Total	**10,779,717**	31,704,840

PLAN OF ARRANGEMENT WITH STRIKE PETROLEUM LTD.

On March 12, 2007, FairWest and Strike Petroleum Ltd. announced a Plan of Arrangement whereby FairWest will make an offer to acquire all of the issued and outstanding shares of Strike, settle the majority of Strike's unsecured debt, and employ most of the Strike personnel. The majority of Strike's production and reserves are located in proximity to FairWest's core operating areas in East Central Alberta. Should the shareholders and creditors of Strike accept the Plan of Arrangement, Mr. Richard Clark, Chairman of the Board of Strike, has expressed his willingness to join the board of directors of FairWest.

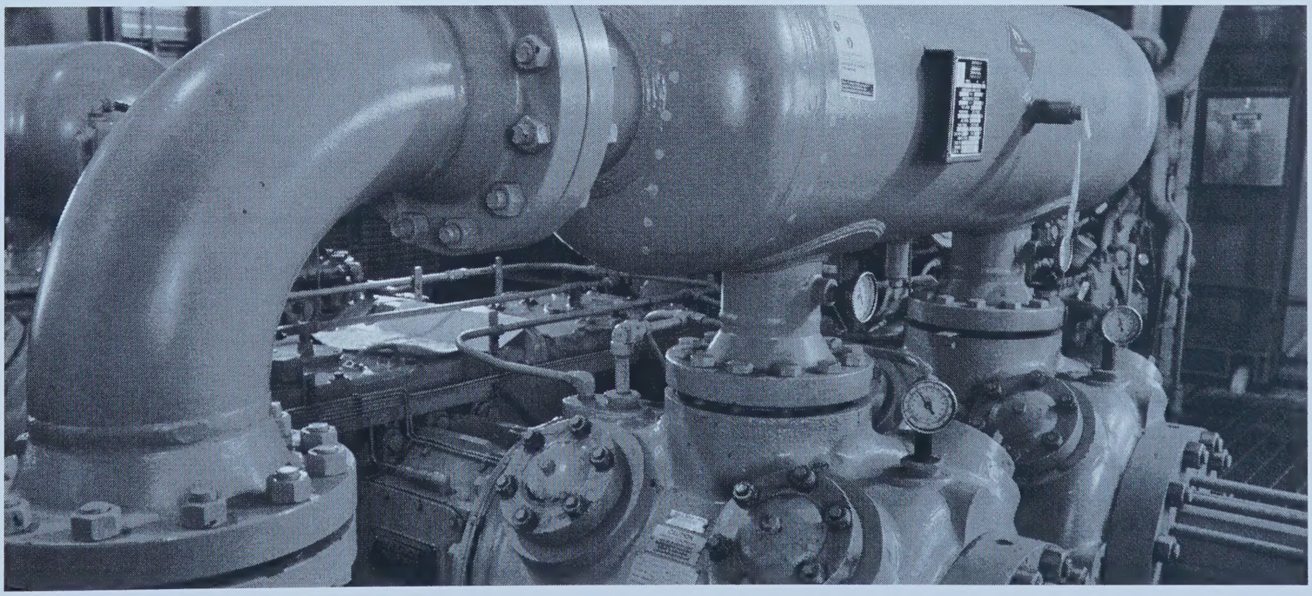
FairWest will offer Strike shareholders 1 FairWest common share for every 1.798 Strike common shares. FairWest expects to issue 12.16 million common shares to the Strike shareholders. In addition, FairWest expects to issue a further 10.0 million flow-through shares at $0.50 per share in order to finance the combined operations of the companies. Representatives of Strike and FairWest have met with unsecured creditors who represent approximately 70% of the trade payables as of January 24, 2007 (the "Indebtedness"). In these meetings, the amount of the Indebtedness was confirmed and agreement in principle was reached by the parties as to the most effective manner to settle the Indebtedness. For every $1.00 of Indebtedness, FairWest is prepared to pay the unsecured creditor either: (i) $0.50 cash plus 1 FairWest common share valued at $0.50 per common share, or (ii) 2 FairWest common shares valued at $0.50 per common share. FairWest estimates that it will issue 6,000,000 common shares and $3.0 million to the unsecured creditors. The offer to the unsecured creditors will be included in an information circular that will be sent to the Strike shareholders and creditors in late March 2007.

The Strike acquisition is expected to increase FairWest's cash flow, cash flow per share, income tax pools, production, reserves, undeveloped land and technical and administrative staff. The transaction will add approximately 500 boe/d of current production that can, through the net expenditure of $1.43 million, be increased to 850 boe/d of production by the end of 2007. Proved plus probable reserves acquired by FairWest are estimated at 1.15 million barrels of oil equivalent (93 percent natural gas). Based on the reserve component of the acquisition, FairWest has determined that the acquisition costs are $17.05 per boe and, based on the expected production in April 2007, FairWest has estimated the cost per flowing boe per day to be $36,004. FairWest will acquire 8,000 acres of undeveloped land, add up to 20 drilling locations and increase its tax pools by $23.3 million. The expected bank credit lines and equity financing will result in a strong balance sheet with anticipated year end debt to cash flow ratio of less than one.

OUTLOOK

As FairWest matures into an established producer, we are looking forward to 2007 as a year of continued growth. By adhering to our own proven exploration and production cycle, along with the integration of the people and assets acquired through the Strike acquisition, FairWest aims to exit 2007 at a production rate of 1,500 boe/d.

FairWest's ability to successfully complete and exploit its planned exploration and development program is contingent upon the continuation of favourable commodity prices, the maintenance of its existing reserve and production base and internally generated cash flow from operations. For the period ended December 31, 2007, the Company's external engineering report calls for the expenditure of $1.66 million to develop its proved resource base and $3.23 million to develop its proved and probable reserve base. The cash flow from operations under the expected proved and proved plus probable case together with planned flow-through share financing



and property sales is more than sufficient to cover the anticipated capital expenditures. In the event that there is a sustained drop in commodity prices or a material reduction in FairWest's reserve and production base, FairWest will either curtail some of its planned exploration and development activities or it will sell a portion of its existing assets to fund its capital expenditure program.

FairWest believes global, North American and domestic supply and demand factors will result in continued strong prices for crude oil and natural gas for the balance of 2007 and into 2008. FairWest does not see a significant change in the current US$/CDN$ exchange rate. It expects to reduce operating costs on a per share basis. As a substantially larger company than one year ago, FairWest's general and administrative expenses will increase on an absolute basis, but as the Company's production rises, it is anticipated that the per unit cost will decrease substantially.

ACKNOWLEDGEMENTS

FairWest values its relationships with individuals and companies who offer us many years of research and development, including cutting edge and "outside the box" solutions to deal with the technical challenges of these modern times. These cost conscious service partners give FairWest the competitive edge to achieve our cost and production targets as we compete for labour, services and capital. Of equal importance are the number of relationships with the parties who provide FairWest with debt and equity financing. The relationships are immensely valuable to us, and we are as committed to the success of these stakeholders as they are to ours. We are privileged to have their trust and confidence.

Our accomplishments during 2006 are due to the dedication and hard work of our management, directors, employees, and consultants. During 2007, we intend to add to this group a number of highly qualified people from Strike. To everyone involved in FairWest, we thank you for your hard work and eagerly look forward to 2007.

"Signed"
James G. Gettis

March 28, 2007

MANAGEMENT'S DISCUSSION & ANALYSIS

The following discussion is management's discussion and analysis ("MD&A") of FairWest Energy Corporation ("FairWest") operating and financial data for December 31, 2006 as well as estimates of future operating and financial performance based on information currently available. It should be read in conjunction with the audited financial statements of FairWest for the period ended December 31, 2005.

In May 2005 Western Energy Corporation ("Western"), a predecessor to FairWest, acquired one (1) company, and in July 2005 Western acquired one (1) company. For the purposes of this MD&A, management has not included the operating and financial results of these companies prior to the date of each acquisition as being those of FairWest for the periods ended December 31, 2005, December 31, 2006.

On August 18, 2005 Western and Fairstar Explorations Inc. ("Fairstar") amalgamated to form FairWest Energy Corporation. In connection with the amalgamation, FairWest established a December 31 year-end. In order to properly disclose its financial results, FairWest has included financial information for the 3-month period ended December 31, 2006, and the 3-month period ended December 31, 2005.

The information contained herein is current as of March 16, 2007.

For information regarding the Western/Fairstar amalgamation refer to Western's July 25, 2005 Management Information Circular located at www.sedar.com or contact the offices of FairWest at (403) 264-4949.

Basis of Presentation

The Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All tabular amounts in the following discussion are in Canadian dollars unless otherwise noted. The reporting and the measurement currency is the Canadian dollar.

Non-GAAP Measurements

This MD&A contains the terms funds flow from operations and operating netback. These terms should not be considered an alternative to, or more meaningful than cash flow from operating activities or net income as determined in accordance with Canadian GAAP as an indicator of FairWest's performance. FairWest's determination of funds flow from operations may not be comparable to that reported by other companies, especially those in other industries. Funds flow from operations represents net earnings adjusted for non-cash items including gain on disposals, depletion and depreciation, accretion, stock-based compensation, and future income tax expense or recovery. FairWest evaluates its performance based on earnings and funds flow from operations. FairWest considers funds flow from operations and operating netbacks key measures that demonstrate FairWest's ability to generate the funds flow necessary to fund future growth through capital investment and to repay debt.

Operating netback is a non-GAAP measurement that represents profit margins realized by the production and sale of petroleum and natural gas. The reconciliation between operating netback and funds flows from operations can be found in the "Funds Flow from Operations" section of this MD&A.

BOE Presentation - The term barrels of oil equivalent ("BOE") may be misleading particularly if used in isolation. All BOE conversions in this report are derived by converting gas to oil in the ratio of six thousand cubic feet of gas to one barrel of oil. A BOE conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Forward-Looking Statements

Statements made throughout this MD&A may contain forward-looking information including expectations of future production, components of cash flow and earnings, expected future events and/or financial results that are forward looking in nature and subject to substantial risks and uncertainties. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. FairWest cautions the readers that actual performance will be affected by a number of factors, as many may respond to changes in economic and political circumstances throughout the world. Events or circumstances may cause actual results to differ materially from those predicted, a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of FairWest. These risks include, but are not limited to: the risks associated with the oil and gas industry, commodity prices and exchange rate changes; industry related risks could include, but are not limited to, operational risks in exploration, development and production, delays or changes in plans, risks associated with the uncertainty of reserve estimates, health and safety risks and the uncertainty of estimates and projections of production, costs and expenses. These external factors

beyond FairWest's control may affect the marketability of oil and natural gas produced, industry conditions including changes in laws and regulations, changes in income tax regulations, increased competition, fluctuations in commodity prices, interest rates, and variations in the Canadian/United States dollar exchange rate. The reader is cautioned not to place undue reliance on this forward-looking information.

Statements throughout this MD&A that are not historical facts may be considered "forward looking statements". These forward-looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe FairWest's objectives, goals or future plans are forward looking statements. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated.

CORPORATE OVERVIEW

FairWest is engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves in the provinces of Alberta and Saskatchewan.

Financial Highlights	March 31, 2006 (3 Months)	June 30, 2006 (3 Months)	September 30, 2006 (3 Months)	**December 31, 2006 (3 Months)**	**December 31,2006 (12 Months)**
	$	$	$	**$**	**$**
Revenue					
Petroleum and natural gas sales, net of royalties	802,586	1,122,561	1,236,102	**812,783**	**3,974,032**
Other income	347,894	-	-	**(1,667)**	**346,227**
Total Revenue	1,150,480	1,122,561	1,236,102	**811,116**	**4,320,259**
Expenses					
Depletion, depreciation and amortization	722,127	697,487	714,978	**941,052**	**3,075,644**
Operating costs	315,547	473,522	487,706	**236,658**	**1,513,433**
Interest and bank charges	39,538	69,422	76,230	**70,925**	**256,115**
General and administrative expense (1)	317,326	209,433	46,997	**295,932**	**869,688**
Stock-based compensation (1)	-	72,338	114,418	**100,657**	**287,413**
Part XII.6 tax	32,421	43,814	1,281	**-**	**77,516**
Future income tax (recovery)	(1,866,461)	-	75,027	**380,089**	**(1,411,345)**
Total expenses	(439,502)	1,566,016	1,516,637	**2,025,313**	**4,668,464**
Net income (loss)	1,589,982	(443,455)	(280,535)	**(1,214,197)**	**(348,205)**
Funds flow from operations	97,754	326,370	623,888	**215,239**	**1,263,251**
Capital expenditures	465,684	895,911	4,339,276	**5,078,846**	**10,779,717**
Share Data					
Common shares outstanding	53,848,687	55,256,144	60,962,044	**61,444,307**	**61,444,307**
Warrants outstanding	3,000,000	3,000,000	3,000,000	**3,000,000**	**3,000,000**
Options outstanding	374,116	4,674,116	5,899,116	**5,899,116**	**5,899,116**
Weighted average number of common shares					
Basic	54,127,886	54,980,766	55,380,185	**56,362,509**	**56,362,509**
Diluted	54,205,305	54,980,766	55,380,185	**56,362,509**	**56,362,509**
Basic income (loss) per share	0.029	(0.008)	(0.005)	**(0.022)**	**(0.006)**
Diluted income (loss) per share	0.029	(0.008)	(0.005)	**(0.022)**	**(0.006)**

HIGHLIGHTS OF OPERATIONS

	March 31, 2006 (3 Months)	June 30, 2006 (3 Months)	September 30, 2006 (3 Months)	**December 31, 2006 (3 Months)**	**December 31,2006 (12 Months)**
Natural gas					
Natural gas sales ($)	824,820	798,609	684,720	**712,410**	**3,020,559**
Volume – mcf	104,369	124,906	117,637	**107,425**	**454,337**
Volume – mcf/day	1,160	1,373	1,279	**1,168**	**1,245**
$/mcf	7.90	6.39	5.82	**6.63**	**6.65**
Oil and NGLs					
Oil and NGL sales ($)	287,424	339,172	279,390	**200,811**	**1,106,797**
Volume - bbl	5,134	5,050	4,261	**3,541**	**17,986**
Volume - bbl/day	57	55	46	**38**	**49**
$/bbl	55.98	67.16	65.57	**56.71**	**61.54**
Barrel of oil equivalent					
Total sales ($)	1,112,244	1,137,781	964,110	**913,221**	**4,127,356**
Volume - boe	22,529	25,868	23,867	**21,445**	**93,709**
Volume - boe/day	250	284	259	**233**	**257**
$/boe	49.37	43.98	40.40	**42.58**	**44.04**

(1) These amounts were shown net in the interim financial statements dated June 30, 2006 and September 30, 2006 but have been shown separately to be consistent with the annual presentation.

Financial Highlights	February 28, 2005 (3 Months)	May 31, 2005 (3 Months)	September 30, 2005 (4 Months)	December 31, 2005 (3 Months)	December 31,2005 (13 Months)
	$	$	$	$	$
Revenue					
Petroleum and natural gas sales, net of royalties	326,874	660,580	1,529,763	1,271,104	3,788,321
Other income	37,044	60,881	228,134	90,670	416,729
Total Revenue	363,918	721,461	1,757,897	1,361,774	4,205,050
Expenses					
Depletion, depreciation and amortization	135,300	388,566	1,011,077	1,990,905	3,525,848
Operating costs	120,655	137,108	350,742	297,130	905,635
Interest and bank charges	617	91	91,414	87,113	179,235
General and administrative expense	181,841	137,286	251,944	316,925	887,996
Part XII.6 tax	-	-	-	62,574	62,574
Future income tax (recovery)	(914,000)	-	(1,509,199)	1,762,799	(660,400)
Total expenses	(475,587)	663,051	195,978	4,517,446	4,900,888
Net income (loss)	839,505	58,410	1,561,919	(3,155,672)	(695,838)
Funds flow from operations	60,805	446,976	861,107	577,257	1,946,145
Capital expenditures	1,268,724	2,633,762	24,451,612	3,350,772	31,704,870
Share Data					
Common shares outstanding	19,458,607	21,542,231	48,128,228	53,088,228	53,088,228
Warrants outstanding	-	-	1,100,000	2,420,000	2,420,000
Options outstanding	-	-	378,579	378,579	378,579
Weighted average number of common shares					
Basic	18,157,467	19,888,915	36,804,223	31,157,750	31,157,750
Diluted	18,157,467	20,388,915	37,840,936	31,157,750	31,157,750
Basic income (loss) per share	0.046	0.003	0.042	(0.101)	(0.022)
Diluted income (loss) per share	0.046	0.003	0.041	(0.101)	(0.022)

HIGHLIGHTS OF OPERATIONS

	February 28, 2005 (3 Months)	May 31, 2005 (3 Months)	September 30, 2005 (4 Months)	December 31, 2005 (3 Months)	December 31, 2005 (13 Months)
Natural gas					
Natural gas sales ($)	299,751	584,790	1,472,318	1,419,243	3,776,102
Volume – mcf	43,363	83,541	162,504	119,421	408,829
Volume – mcf/day	482	908	1,332	1,298	1,120
$/mcf	6.91	7.00	9.06	11.88	9.24
Oil and NGLs					
Oil and NGL sales ($)	100,764	228,790	550,072	351,229	1,230,855
Volume - bbl	2,575	4,267	8,662	5,260	20,764
Volume - bbl/day	29	46	71	57	57
$/bbl	39.13	53.62	63.50	66.77	59.28
Barrel of oil equivalent					
Total sales ($)	400,515	813,580	2,022,390	1,770,472	5,006,957
Volume - boe	9,799	18,193	35,746	25,164	88,902
Volume - boe/day	109	198	293	273	244
$/boe	40.87	44.72	56.58	70.36	56.32

Petroleum and Natural Gas Sales

The following table represents revenue, sales volumes, and average prices received from the sale of natural gas, oil and natural gas liquids for the periods indicated.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Revenue				
Oil and natural gas liquids revenue	**200,811**	351,229	**1,106,797**	1,230,855
Natural gas revenue	**712,410**	1,419,243	**3,020,559**	3,776,102
Petroleum and natural gas sales	**913,221**	1,770,472	**4,127,356**	5,006,957
Royalty expense	**100,438**	499,368	**586,332**	1,218,636
Royalty adjustment expense	**-**	-	**(433,008)**	-
Petroleum and natural gas sales, net of royalty expense	**812,783**	1,271,104	**3,974,032**	3,788,321
Petroleum and natural gas sales ($/boe)	**42.58**	70.36	**44.04**	56.32
Sales Volumes				
Oil and natural gas liquids (bbls)	**3,541**	5,260	**17,986**	20,764
Natural gas (mcf)	**107,425**	119,421	**454,337**	408,829
Boe	**21,445**	25,164	**93,709**	88,902
Average Sales Price				
Oil and natural gas liquids ($/bbl)	**56.71**	66.77	**61.54**	59.28
Natural gas ($/mcf)	**6.63**	11.88	**6.65**	9.24

Average gas prices in the three-month period ended December 31, 2006 decreased to $6.63 from $11.88 in the same period in 2005. Similarly, average gas prices in the period ended December 31, 2006 decreased to $6.65 from $9.24 in the same period in 2005. These price changes together with a shorter fiscal period contributed to reduced revenue in 2006.

Average daily production during the three-month period ended December 31, 2006 was 233 boe/d (273 boe/d – 2005). Average daily production during period ended December 31, 2006 was 257 boe/d (244 boe/d – 2005). Daily production has increased in 2007 as the wells drilled in the third and fourth quarters of 2006 came on production in the latter half of January and February 2007.

ROYALTIES

The following table shows royalty expense for the periods indicated.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Royalty expense - actual ($)	**100,438**	499,368	**586,332**	1,218,636
% of sales	**11.0%**	28.2%	**14.2%**	24.3%
$/boe	**4.68**	19.84	**6.26**	13.71

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Royalty expense – adjustment ($)	**-**	-	**(433,008)**	-
% of sales	**-**	-	**10.5%**	-
$/boe	**-**	-	**(4.62)**	-

There was a significant royalty adjustment for the period due to an over accrual of the freehold and gross overriding royalty expense relating to properties acquired by FairWest from Supreme Energy Inc. FairWest did not have complete royalty percentage information available for the wells purchased and used estimated percentages for freehold and gross overriding royalties that were calculated by an independent source. The royalties were not being charged out by the operator of the properties to enable verification of estimates used. Integration of these properties has now been completed and all royalty information has been updated. FairWest does not expect any future significant adjustments on account of freehold and gross overriding royalties.

Royalties as a percentage of sales in the three-month period ended December 31, 2006 decreased to 11.0% from 28.2% in the same period in 2005. Similarly, royalties as a percentage of sales in the period ended December 31, 2006 decreased to 14.2% from 24.3% in the same period in 2005. These royalty percentage reductions together with reduced sales prices and royalty expense adjustments contributed to reduced royalties in 2006. FairWest expects, based on existing production and new production, that its 2007 royalty rate will be 19.3%.

OTHER INCOME AND GAIN ON THE DISPOSAL OF MARKETABLE SECURITIES

The following table shows other income and gain on the disposal of marketable securities for the periods indicated.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Other income ($)	**-**	-	**5,972**	193,264
Gain on disposal of marketable securities ($)	**(1,667)**	90,670	**340,255**	223,465
Total ($)	**(1,667)**	90,670	**346,227**	416,729

For the period ended December 31, 2006 there was a minimal amount of other income which was attributable to interest income and other miscellaneous income. For the period ended December 31, 2005 other income is attributable to fees earned to manage various companies that were acquired by FairWest. It is not expected that FairWest will earn substantial other income in the future.

During the periods ended December 31, 2006 and December 31, 2005, FairWest disposed of all of the marketable securities that it acquired as a result of the amalgamation with Fairstar.

OPERATING COSTS

The following table shows operating costs for the periods indicated.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Operating costs ($)	**236,658**	297,130	**1,513,433**	905,635
$/boe	**11.04**	11.81	**16.15**	10.19

In the three-month period ended December 31, 2006, operating costs decreased to $11.04 per boe from $11.81 in the same period in 2005. For the period ended December 31, 2006, operating costs increased to $16.15 per boe from $10.19 in the same period in 2005.

In 2006 FairWest made the decision to operate most of its properties in its core operating areas of Burstall, Provost, Berry Creek and Antelope. As a result, certain start up costs, one time optimization costs and workover costs were incurred that are not expected to reoccur in 2007 and subsequent years. FairWest's 2007 per unit operating costs will decrease as a result of operatorship, the acquisition of gathering and processing facilities and third party gathering and processing arrangements. FairWest expects, based on existing production and new production, that its 2007 operating costs should be less than $9.00 per boe.

INTEREST AND BANK CHARGES

The following table shows interest and bank charges for the periods indicated.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Interest and bank charges ($)	**70,925**	87,113	**256,115**	179,235
$/boe	**3.31**	3.46	**2.73**	2.02

The Company used bank debt to finance a portion of its exploration, development and acquisition activities. The Company plans to finance a portion of its future development activities, including the tie in of the wells drilled and completed in the second and third quarters, with bank debt. Accordingly, management believes that interest expense will increase in the future.

PART XII.6 TAX

The following table shows the Part XII.6 Tax for the period indicated.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Part XII.6 tax expense ($)	**-**	62,574	**77,516**	62,574
$/boe	**-**	2.49	**0.82**	0.70

Part XII.6 tax is levied where a company allocates income tax expenditures to a flow-through shareholder prior to the date where the actual expenditures are incurred. A total of $6,424,449 of qualified expenditures were incurred during the period ended December 31, 2006. As a result, all of the required expenditures to meet our 2005 flow-through obligations and a portion of our 2006 flow-through obligations have been expended. Flow-through shares sold by FairWest in 2006 require that a further $2,680,899 of qualified expenditures be spent by December 31, 2007. FairWest believes that the planned 2007 capital expenditures will be sufficient to meet the remaining flow-through obligations. Based on outstanding flow-through share commitments the Company expects to incur part XII.6 tax in 2007.

FUNDS FLOW FROM OPERATIONS

The following table shows funds flow from operations for the periods indicated.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Funds flow from operations ($)	**215,239**	577,257	**1,263,251**	1,946,145
$/boe	**10.04**	22.94	**13.48**	21.89

Funds flow from operations for the three and twelve month periods ended December 31, 2006 were down from those experienced in the same period during 2005. Significantly lower commodity prices was the main factor for this decrease. As well, operating costs were higher due to some one time costs incurred as FairWest took over operatorship and optimized production. General and administrative expenses were comparable to the prior period, but interest charges increased over 2005, which is expected as we continue to use bank financing to support future development activities.

NETBACKS

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Petroleum and natural gas sales	**913,221**	1,770,472	**4,127,356**	5,006,957
Royalty expense	**(100,438)**	(499,368)	**(586,332)**	(1,218,636)
Royalty expense adjustment	**-**	-	**433,008**	-
Operating costs	**(236,658)**	(297,130)	**(1,513,433)**	(905,635)
Operating netback ($)	**576,125**	973,974	**2,460,599**	2,882,686
Petroleum and natural gas sales	**42.58**	70.36	**44.04**	56.32
Royalty expense	**(4.68)**	(19.84)	**(6.26)**	(13.71)
Royalty expense adjustment	**-**	-	**4.62**	-
Operating costs	**(11.04)**	(11.81)	**(16.15)**	(10.19)
Operating netback ($/boe)	**26.86**	38.71	**26.25**	32.42

Operating netback for the three and twelve month periods ended December 31, 2006 were lower than the previous year due to several factors, the most significant of which being the lower prices received during the last quarter of 2006. Offsetting this year to year decrease in commodity prices was a decrease in royalty rates from those recorded in 2005. Operating costs increased in 2006 as FairWest took over operatorship of several properties and incurred some one time costs relating to start up and optimization.

GENERAL AND ADMINISTRATIVE EXPENSE

The following table shows general and administrative expense for the periods indicated.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
General and administrative expense ($)	**295,932**	316,925	**869,688**	887,996
$/boe	**13.80**	12.60	**9.28**	9.98

In the three-month period ended December 31, 2006, general and administrative costs increased to $13.80 per boe from $12.60 in the same period in 2005. For the period ended December 31, 2006, general and administrative costs decreased to $9.28 per boe from $9.98 in the same period in 2005. Management believes that as production increases, the general and administrative costs will continue to be reduced on a per unit basis. For the twelve-month period ended December 31, 2006 FairWest capitalized $850,797 of overhead expenses, including $143,709 of stock-based compensation.

STOCK-BASED COMPENSATION

The following table shows the stock-based compensation expense for the periods indicated.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Stock-based compensation ($)	**100,657**	-	**287,413**	-
$/boe	**4.69**	-	**3.07**	-

The total stock-based compensation for 2006 was $431,119 (2005 - $0). Of this total, $287,413 was expensed for the period ended December 31, 2006, and $143,706 was capitalized. The Company uses the Black-Scholes option pricing model to calculate stock-based compensation. The options vest in the period 2006 – 2009.

DEPLETION, DEPRECIATION, AND AMORTIZATION

The following table shows depletion, depreciation, and amortization expense for the periods indicated.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Depletion, depreciation and amortization ($)	**941,052**	1,990,905	**3,075,644**	3,525,848
$/boe	**43.88**	79.12	**32.82**	39.66

The Company expects that during the 2007 fiscal period its capital expenditure program will result in the classification of a portion of probable reserves to proven reserves and result in additions to its proven reserve base. This should reduce depletion, depreciation and amortization for the year on a per unit basis for 2007. Undeveloped land costs and seismic costs of $4,171,202 (2005-$4,801,262) are included in the calculation of depletion and depreciation. Future development costs on proved reserves of $3,806,000 (2005-$1,513,000) are included in the calculation of depletion and depreciation.

INCOME TAX EXPENSE

The following table shows the tax pools as of December 31, 2006.

Tax Pools	$
COGPE	2,695,996
CDE	4,403,194
CEE	2,808,405
FOREIGN	6,141,903
UCC	5,175,968
SHARE ISSUANCE COSTS	733,293
NON-CAPITAL LOSSES	12,850,255
TOTAL	34,809,014

Due to the existence of substantial non-capital losses and other tax deductions, FairWest did not incur any current income tax expense during the periods ended December 31, 2006 and December 31, 2005. For the period ended December 31, 2006, FairWest had a recovery of future income taxes of $1,411,345 (2005 - $660,400). Due to the existence of non-capital losses and income tax pools, FairWest does not expect to be taxable for a minimum of three years. FairWest has estimated that the tax pools are available at December 31, 2006 to reduce future income. Some of these tax pools include successor costs and as such must be streamed against the income associated with the properties of the company that originally incurred the expenditures.

NET LOSS

The following table shows the net loss for the periods indicated.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Net loss ($)	**(1,214,197)**	(3,155,672)	**(348,205)**	(695,838)
$/boe	**(56.62)**	(125.40)	**(3.72)**	(7.83)

The net loss for the period ended December 31, 2006 was $348,205. A significant item in the income statement was the future income tax recovery of $1,411,345. This amount relates to the Company's ability to utilize its significant base of non-capital losses and discretionary income tax pools.

CAPITAL EXPENDITURES

Net capital expenditures of $10,779,717 were made in the twelve-month period ending December 31, 2006.

	December 31, 2006 (3 Months)	December 31, 2005 (3 Months)	**December 31, 2006 (12 Months)**	December 31, 2005 (13 Months)
Lease rental	**4,704**	9,861	**17,317**	19,901
Seismic	**(23,439)**	1,900,814	**730,618**	3,034,062
Drilling and completions	**2,063,522**	989,402	**5,654,916**	1,641,146
Equipping and tie in	**2,300,288**	223,533	**2,775,225**	457,606
Corporate acquisitions (disposals)	**431,000**	-	**(769,945)**	23,731,241
Undeveloped land acquisition	**98,533**	-	**1,469,128**	-
Mining asset	**-**	-	**-**	2,172,323
Other	**27,693**	20,873	**51,660**	256,840
Capitalized overhead	**176,544**	206,289	**850,798**	391,721
Total	**5,078,845**	3,350,772	**10,779,717**	31,704,840

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006 FairWest had $14,847 in cash and cash equivalents and a working capital deficiency of $8,334,469, including $3,682,133 of revolving bank debt. The working capital deficiency includes accounts receivable and accounts payable that FairWest expects to collect and disburse within a 90-day period.

At December 31, 2006 FairWest had a $5.9 million revolving non-reducing demand loan (Credit Facility A) with the National Bank of Canada. Credit Facility A has an interest rate of the bank's prime lending rate plus 0.75%. Management has asked the National Bank to increase FairWest's credit facilities based on the results of FairWest's drilling and optimization programs. The line of credit was used to assist in acquisition, development and production, and general corporate purposes.

In July 2005 the National Bank provided FairWest with a non revolving acquisition demand loan (Credit Facility B) of $2.0 million. Credit Facility B has an interest rate of the bank's prime lending rate plus 1.00%. As at December 31, 2006 FairWest has drawn down $961,679 on this credit facility for the equipping and tie in costs of the wells in the Antelope area.

At December 31, 2006 FairWest did not comply with its requirement to maintain a working capital ratio of not less than 1.0. To rectify this default, FairWest intends to sell $2.5 million of non core assets and sell $1.0 million of flow-through equity by March 31, 2007. These actions together with increased credit facilities will be sufficient to rectify the December 31, 2006 default on its credit facilities. FairWest has received a waiver in respect of the default.

On March 24, 2006 $507,345 of the principal portion of a $947,438 escrow promissory note was cancelled and the remaining portion of $440,093 together with accrued interest was released from escrow and paid to the former shareholders of Supreme Energy Inc. On March 31, 2006 the Supreme shareholders used the principal and interest received in the amount of $455,526 to acquire flow-through equity in FairWest. On March 24, 2006 a total of 1,158,751 of escrowed common shares were cancelled and the remaining 868,888 common shares were subsequently released from escrow.

The table below sets out the number of Common Shares issued by Western prior to the amalgamation and issued by FairWest subsequent to the amalgamation on August 18, 2005.

Date	Description	Issue Price $	Shares Issued #	Share Proceeds $
Western				
November 2004	**Opening Balance**		**15,664,601**	**9,838,373**
December	Unit Offering, Shares and Warrants	$0.50	500,000	250,000
December	Flow-through shares	$0.50	3,282,000	1,641,000
2005				
February	Equity Offering	$0.50	12,000	6,000
February	Share Issuance Costs		-	(69,273)
February	Tax Effect		-	(914,000)
May	Corporate Acquisition	$0.82	2,083,630	1,709,618
July	Flow-through Shares	$0.90	2,411,795	2,170,616
July	Corporate Acquisition	$0.68	14,720,929	10,034,118
July	Flow-through Shares	$0.90	1,572,896	1,415,606
August	Flow-through Shares	$0.90	1,604,938	1,444,444
August	Share Issuance Costs		-	(602,243)
Total	**August 18, 2005**		**41,852,789**	**26,924,259**
FairWest				
Total Western Shares Converted to FairWest (1)			41,852,789	26,924,259
August 18	Issued to Fairstar Shareholders(1)	$0.62	6,275,439	3,913,089
December	Exercise of Warrants	$0.50	320,000	160,000
December	Flow-through Shares	$0.60	1,000,000	600,000
December	Unit Offering, Shares and Warrants	$0.50	3,640,000	1,820,000
December	Tax Effect Adjustment		-	253,599
December	Share Issuance Costs		-	(89,011)
Total	**December 31, 2005**		**53,088,228**	**33,581,936**
2006				
January	Share Offering	$0.50	1,160,000	580,000
March	Escrow Shares Cancelled	$0.6816	(1,158,751)	(789,831)
March	Flow-through Shares	$0.60	759,210	455,526
April	Flow-through Shares	$0.60	1,407,457	844,474
September	Flow-through Shares	$0.65	4,742,200	3,082,430
September	Share Offering	$0.55	983,200	540,760
December	Flow-through Shares	$0.65	929,263	604,021
December	Normal Course Issuer Bid		(466,500)	(285,452)
December	Share Issuance Costs		-	(320,079)
December	Tax effect Share Issuance Costs		-	107,011
December	Tax effect of Flow-through renunciation		-	(3,349,956)
Total	**December 31, 2006**		**61,444,307**	**35,050,840**

(1) The amalgamation of Western and Fairstar on August 18, 2005 resulted in all of the issued and outstanding shares being exchanged for FairWest Shares. Western shareholders received one (1) FairWest share for each one (1) Western share. Fairstar shareholders received one (1) FairWest share for every 6.7226 Fairstar shares.

On December 27, 2004 500,000 warrants were issued exercisable at $0.50 until December 31, 2005. Of these warrants 320,000 were exercised and 180,000 expired in December 2005.

In July 2005 FairWest granted warrants to acquire 600,000 FairWest shares exercisable at a price of $0.8205 until January 11, 2007. These warrants were granted in conjunction with the acquisition of Supreme Energy Inc. On January 11, 2007 these warrants expired, unexercised.

In December 2005 and January 2006 FairWest granted warrants to acquire 2,400,000 FairWest shares exercisable at a price of $0.60 until July 1, 2007. These warrants were issued in conjunction with the sale of 4,800,000 common shares at $0.50 per share.

At December 31, 2005 FairWest had outstanding 378,579 options to former officers, directors and former employees and consultants of Fairstar Exploration Inc.

On January 30, 2006, 4,463 options with an exercise price of $0.67 per common share expired.

On March 24, 2006 the former shareholders of Supreme Energy Inc. agreed to cancel 1,158,751 common shares that were held in escrow pursuant to an escrow agreement dated July 11, 2005. A total of 868,888 common shares were released from escrow.

At the annual shareholders meeting, held April 26, 2006 approval was given of the Stock Option Plan of FairWest. Subsequently, 4,400,000 options were granted, exercisable at $0.50 per share and 100,000 options exercisable at $0.59 per share to officers, directors, employees and consultants of FairWest. These options will vest over a three-year period.

On April 26, 2006 FairWest issued 100,000 options at $0.56 to a new board member.

On June 29, 2006 300,000 options were cancelled that had been granted to a former employee.

On August 21, 2006, 1,150,000 options were granted to employees and directors at a price of $0.56. These options will vest over a three year period.

On September 18, 2006, 75,000 options were issued with an exercise price of $0.51 per common share to an employee. These options will vest over a three year period.

During the third and fourth quarters 466,500 shares were repurchased and cancelled at a cost of $217,926 under the normal course issuer bid. This amount was less than the carrying value of the shares cancelled and an amount of $67,526 was credited to contributed surplus with an offset charge to shareholders equity. The total charge to equity was $285,452 for the period ended December 31, 2006, after this adjustment.

RELATED PARTY TRANSACTIONS

In December 2005 the Company entered into a joint venture with ExploreCo Energy Inc. (“ExploreCo”). The terms of the joint venture allow ExploreCo to participate in the exploration for and development of defined oil and gas opportunities for up to 25% of FairWest’s share of these properties. FairWest’s participation is limited by the amount of equity raised by ExploreCo. To date ExploreCo has participated in 16 wells drilled in the Antelope, Berry Creek and Garrington areas of Alberta.

In December 2005 ExploreCo granted the Company the option to acquire 1,665,667 common shares of ExploreCo at a purchase price of $0.30 per share. The options vest at a rate of one option for every $3.00 of third party subscriptions raised by ExploreCo and expire 30 days from date of vesting. As at December 31, 2006, 874,000 options vested and were exercised by FairWest at a total price of $262,200. The remaining 791,667 options have expired.

ExploreCo owes FairWest $984,625 being amounts owing from joint venture billings, in the normal course of business. This account is paid as the joint venture billings are received by ExploreCo.

In November 2006 the Company entered into a joint venture with Petrovest Exploration & Production Corporation (“Petrovest”). The terms of the joint venture allow Petrovest to participate in the exploration for and development of defined oil and gas opportunities for up to 25% of FairWest’s share of these properties. FairWest’s participation is limited by the amount of equity raised by Petrovest.

In November 2006, Petrovest granted the Company the option to acquire 999,000 common shares of Petrovest at a purchase price of $0.30 per share. The options vest at a rate of one option for every $3.00 of third party subscriptions raised by Petrovest and expire 30 days from date of vesting. As at December 31, 2006, 208,334 options vested and were exercised by FairWest at a total price of $62,500.

Bluestone Resources Inc. ("Bluestone") is a company controlled by Jim Gettis, President of FairWest. Bluestone is a joint venture party in the Garrington area as well as a royalty owner. Bluestone owes FairWest $19,342 at December 31, 2006. Bluestone pays its account as joint venture billings are received.

OUTLOOK

During 2006 FairWest drilled 15 wells in the Antelope area, 5 wells in the Berry Creek area and 1 well in the Garrington area. This drilling resulted in proved reserves being added to our reserve base. The Company also made significant property acquisitions in Burstall, Saskatchewan, Berry Creek, Alberta and Provost, Alberta. FairWest is continuing to optimize these assets to increase production, reduce operating costs and generate new oil and gas prospects. The gas plant acquired in the Berry Creek area of Alberta is currently processing not only FairWest's gas, but gas from other wells in the area and revenue generated from fees will add to our cash flow. During the year, FairWest also acquired more land base to add to its undeveloped properties for future drilling opportunities.

FairWest recently announced the proposed acquisition of Strike Petroleum Ltd. This acquisition will increase FairWest's reserves, daily production, undeveloped lands, tax pools, inventory of oil and gas prospects and staff. In order to finance this acquisition, FairWest will have to settle with the Strike unsecured creditors, sell equity, increase its bank loans and rationalize the combined assets.

FairWest's ability to fully exploit and carry out its planned exploration and development program is contingent upon the continuation of favourable commodity prices, the maintenance of its existing reserve and production base and internally generated cash flow from operations. For the period ending December 31, 2007, the Company's external engineering report calls for the expenditure of $1,655,000 to develop its proved resource base and $3,225,000 to develop its proved and probable reserve base. The cash flow from operations under the expected proved and proved and probable case together with planned flow-through share financing and property sales is more than sufficient to cover the anticipated capital expenditures. In the event that there is a material drop in commodity prices or a material reduction in FairWest's reserve and production base, FairWest will either curtail some of its planned exploration and development activities or it will sell a portion of its existing assets to fund its capital expenditure program.

FairWest believes global, North American and domestic supply and demand factors will result in continuing strong prices for crude oil and natural gas at current levels for the balance of 2007 and into 2008. FairWest does not see a significant change in the current US$/CDN$ exchange rate. It expects to reduce operating costs on a per unit basis. FairWest's general and administrative expenses will increase on an absolute basis and as production rises it is expected that per unit cost will decrease substantially.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2006, by and under the supervision of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures as defined by Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time period specified in those rules and forms.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

An evaluation of the Company's internal control over financial reporting was conducted as of December 31, 2006, by and under the supervision of management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company's design of internal control over financial reporting, as defined by Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, is sufficient to provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP.

There have been no changes in internal control over financial reporting during the quarter ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

The reader is advised that the critical accounting estimates, policies, and practices as described in this Management Discussion and Analysis continue to be critical in determining FairWest's financial results.

The reader is further cautioned that the preparation of financial statements in accordance with GAAP requires management to make certain judgments and estimates that affect the reported amount of assets, liabilities, revenues and expenses. Estimating reserves is also critical to several accounting estimates and requires judgments and decisions based upon available geological, geophysical, engineering and economic data. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes. Changes in these judgments and estimates could have a material impact on the financial results and financial condition. The following discussion outlines accounting policies and practices that are critical to determining FairWest's financial results:

Accounting for Petroleum and Natural Gas Operations

FairWest follows the full cost method of accounting whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves are capitalized in a single Canadian cost center. Such costs include lease acquisition, lease rentals on undeveloped properties, geological and geophysical costs, drilling both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities.

The application of the full cost method of accounting requires management's judgment to determine the proper designation of a well as either developmental or exploratory, which will ultimately determine the proper income tax treatment of the costs incurred.

Reserve Estimates

Full cost accounting depends on the estimated proven reserves that are believed to be recoverable from FairWest's oil and gas properties. The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. FairWest's reserve estimates are based on current production forecasts, prices and economic conditions. An independent engineering firm, Chapman Petroleum Engineering Ltd, evaluates all of FairWest's reserves.

Reserve estimates are critical to many of the accounting estimates, including:

- Calculating our unit-of-production depletion rates. Proven reserve estimates are used to determine rates that are applied in calculating depletion expense.
- Assessing when necessary, oil and gas assets for possible impairment. Estimated future undiscounted cash flows are determined using proven reserves. The criteria used to assess impairment, including the impact of changes in reserve estimates, are discussed below.

As circumstances change and additional data becomes available, reserve estimates also change, possibly materially impacting net income. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort to ensure that reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to the reserve estimates can arise from changes in oil and gas prices, and reservoir performance. Such revisions can be either positive or negative.

It would take a very significant decrease in FairWest's proven reserves to limit its ability to borrow money under the existing credit facility.

Impairment of Petroleum and Natural Gas Properties

FairWest reviews its full cost pool for impairment annually. An impairment provision is recorded whenever events or circumstances indicate that the carrying value of FairWest's properties may not be recoverable. The impairment provision is based on the excess of carrying value over fair value. Fair value is defined as the present value of the estimated future net revenues from production of total proved and probable petroleum and natural gas reserves, as estimated by FairWest on the balance sheet date. Reserve estimates, as well as estimates for petroleum and natural gas prices and production costs may change, and there can be no assurance that impairment provisions will not be required in the future.

Management's assessment of, among other things, the results of exploration activities, commodity price outlooks, and planned future development and sales, impacts the amount and timing of impairment provisions.

Asset Retirement Obligation

The asset retirement obligation provision recorded in the consolidated financial statements is based on an estimate for total costs for future site restoration and abandonment of FairWest's petroleum and natural gas properties and equipment. This estimate is based on management's analysis of production structure, reservoir characteristics and depth, market demand for equipment, currently available procedures, and discussions with construction and engineering consultants. Estimating these future costs requires management to make estimates and judgments that are subject to future revisions based on numerous factors, including changing technology, political and regulatory environments.

Income Taxes

FairWest records future tax assets and liabilities to account for the expected future tax consequences of events that have been recorded in its consolidated financial statements and its tax returns. These amounts are estimates; the actual tax consequences may differ from the estimates due to changing tax rates and regimes, as well as changing estimates of cash flows and capital expenditures in current and future periods. FairWest periodically assesses its ability to realize on its future tax assets. If FairWest concluded that it is not more likely than not that some portion or all of the future tax assets will be realized under accounting standards, the tax asset will be adjusted by a valuation allowance.

CLAIMS AND LITIGATION

FairWest could become involved in various claims and litigation arising in the normal course of business in the future. The outcome of these matters would be uncertain and there could be no assurance that such matters could be resolved in FairWest's favour. If the outcome would be unfavorable, it could have a materially adverse impact on FairWest's financial position or results of operations.

FairWest received a statement of claim for $70,000 from a former officer of Fairstar on account of a severance claim. In February 2007 this claim was settled without cost to the Company.

FairWest has received a statement of claim for $135,693 from Aero Drilling and Consulting Ltd., a former subcontractor of Supreme Energy Inc. FairWest does not believe the claim has merit and intends to defend the action.

FairWest has received a notice of reassessment from Revenu Quebec for the period ended February 28, 2003 in the amount of $211,243, including interest. This reassessment relates to Fairstar. The Company has filed a notice of objection and believes that the assessment was based on erroneous information.

With the above risks and uncertainties, the reader is cautioned that future events and results may vary significantly from that which FairWest currently foresees.

MANAGEMENT'S REPORT

The consolidated financial statements of FairWest Energy Corporation and the accompanying supplemental information are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material aspects. Financial information presented elsewhere in this annual report have been prepared by management on a basis consistent with that in the consolidated financial statements.

FairWest Energy Corporation maintains systems of internal accounting controls. These systems provided reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded.

The Audit and Reserves Committees of the Board of Directors, composed entirely of non-management directors, meet regularly with management, as well as the external auditors, to discuss auditing (external, internal and joint venture), internal controls, accounting policy, financial reporting matters and the reserves determination process. The Committee reviews the consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.

The consolidated financial statements have been audited by Kenway Mack Slusarchuk Stewart LLP, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Kenway Mack Slusarchuk Stewart LLP have full and free access to the Audit and Reserves Committees.

"Signed"
JAMES G. GETTIS
PRESIDENT AND CHIEF EXECUTIVE OFFICER

"Signed"
MARION D. MACKIE
CHIEF FINANCIAL OFFICER

March 16, 2007

AUDITORS' REPORT

To: The Shareholders of FairWest Energy Corporation

We have audited the consolidated balance sheets of FairWest Energy Corporation as at December 31, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the twelve month period ended December 31, 2006 and the thirteen month period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2006 and 2005 and the consolidated results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

Kenway Mack Slusarchuk Stewart LLP

Chartered Accountants
Calgary, Alberta
March 2, 2007

CONSOLIDATED BALANCE SHEETS

As at December 31,	2006	2005
Assets	$	$
Current assets		
Cash	**14,847**	1,494
Marketable securities	**-**	893,000
Accounts receivable	**1,331,594**	1,751,417
Due from related parties (note 4)	**1,003,967**	168,933
Prepaid expenses	**64,175**	46,543
	2,414,583	2,861,387
Property and equipment (note 5)	**39,505,419**	31,721,023
Mining property (note 6)	**2,172,323**	2,172,323
Long term investments (note 7)	**324,700**	54,700
	44,417,025	36,809,433
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	**6,105,240**	3,611,443
Bank loan payable (note 8)	**4,643,812**	2,845,477
Notes payable (note 9)	**-**	968,972
	10,749,052	7,425,892
Asset retirement obligations (note 10)	**1,375,459**	541,971
Future income tax (note 15)	**1,831,600**	-
	13,956,111	7,967,863
Shareholders' equity		
Share capital		
Common shares (note 11)	**35,050,840**	33,581,936
Contributed surplus (note 13)	**498,645**	19,341,362
Cumulative translation adjustment (note 12)	**-**	(1,630,313)
Deficit (note 12)	**(5,088,571)**	(22,451,415)
	30,460,914	28,841,570
	44,417,025	36,809,433

Approved on behalf of the Board

"Signed"
CARL RAVINSKY
DIRECTOR

"Signed"
RANDY KWASNICIA
DIRECTOR

See accompanying notes

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

For the period ended December 31,	2006 (12 Months)	2005 (13 Months)
	$	$
Revenue		
Petroleum and natural gas	4,127,356	5,006,957
Royalties, net of Alberta Royalty Tax Credit	(586,332)	(1,218,636)
Royalty adjustment (note 14)	433,008	-
	3,974,032	3,788,321
Other income	5,972	193,264
Gain on disposal of marketable securities	340,255	223,465
	4,320,259	4,205,050
Expenses		
General and administrative	869,688	887,996
Stock-based compensation	287,413	-
Operating	1,513,433	905,635
Depletion, depreciation and amortization	3,075,644	3,525,848
Interest and bank charges	256,115	179,235
Part XII.6 tax	77,516	62,574
	6,079,809	5,561,288
Loss before income taxes	(1,759,550)	(1,356,238)
Future income tax recovery (note 15)	(1,411,345)	(660,400)
Net loss	(348,205)	(695,838)
Deficit, beginning of period	(22,451,415)	(21,755,578)
Adjustment for period (note 12)	17,711,049	-
Deficit, end of period	(5,088,571)	(22,451,416)
Basic loss per share	(0.006)	(0.022)
Diluted loss per share	(0.006)	(0.022)
Basic weighted average number of shares outstanding	56,362,509	31,157,750
Diluted weighted average number of shares outstanding	56,362,509	31,157,750

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended December 31,	2006 (12 Months)	2005 (13 Months)
	$	$
Operating activities		
Net loss	(348,205)	(695,838)
Items not affecting cash:		
Depletion, depreciation and amortization	3,075,644	3,525,848
Gain on disposal of marketable securities	(340,255)	(223,465)
Stock-based compensation	287,413	-
Future income tax recovery	(1,411,345)	(660,400)
	1,263,252	1,946,145
Change in non-cash working capital (note 16)	1,458,218	(9,628,144)
	2,721,470	(7,681,999)
Investing activities		
Expenditures on property and equipment	(12,172,856)	(5,767,097)
Proceeds on sale of marketable securities	1,242,988	945,465
Proceeds on sale of property and equipment	977,000	-
Investment in ExploreCo & Petrovest	(270,000)	(54,700)
Advances (to) from related parties	(835,034)	-
Cash portion of purchase price for acquisitions	-	(128,382)
Cash assumed on acquisition of companies	-	164,028
Changes in non-cash working capital relating to capital expenditures (note 16)	1,437,771	3,741,271
	(9,620,131)	(1,099,415)
Financing activities		
Issuance of share capital, net of issuance costs	5,787,131	6,814,156
Purchase of shares for cancellation	(217,926)	-
Bank loan	1,798,335	2,845,480
Repayment of notes payable	(455,526)	(881,946)
Addition to note payable	-	12,060
Advances (to) from related parties	-	141,860
Changes in non-cash working capital relating to financing (note 16)	-	(237,634)
	6,912,014	8,693,976
Increase (decrease) in cash	13,353	(87,438)
Cash, beginning of period	1,494	88,932
Cash, end of period	14,847	1,494

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended December 31, 2006, 12 months and December 31, 2005, 13 months

1. NATURE OF OPERATIONS

On August 18, 2005 Western Energy Corporation ("Western") amalgamated with Fairstar Explorations Inc. ("Fairstar") to form FairWest Energy Corporation (the "Company or "FairWest"), a company incorporated under the *Canada Business Corporations Act.*

The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas in western Canada.

On August 18, 2005, FairWest filed notice under National Instrument 51-102 stating FairWest's intention to change the date of its fiscal year end to December 31 from November 30, with the next year end occurring December 31, 2005. This change was effected in order for FairWest to have a year end consistent with that of other companies in the oil and gas industry.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

These consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries Western Energy Finance & Marketing Corporation, Neutral Development Corporation, and Vega Oil & Gas Ltd. Effective May 31, 2005, these subsidiaries were wound up into the Company.

These consolidated financial statements also include the accounts of its wholly owned subsidiary Supreme Energy Inc. from July 11, 2005. Effective September 30, 2005 this subsidiary was wound up into the Company.

(b) Property and equipment

Capitalized costs

The Company follows the full cost method of accounting for petroleum and natural gas operations, wherein all costs related to the acquisition, exploration for and development of petroleum and natural gas reserves are capitalized in a single Canadian cost center. Such costs include lease acquisition costs, lease rentals on undeveloped properties, geological and geophysical costs, costs of drilling productive and non-productive wells, production equipment and overhead charges directly related to exploration and development activities.

Proceeds from the disposition of petroleum and natural gas properties and equipment are applied against capitalized costs except for dispositions that would alter the rate of depletion by 20% or more, in which case a gain or loss would be recorded.

Depletion

Capitalized costs, together with estimated future capital costs associated with proven undeveloped reserves and amounts related to asset retirement obligations are depleted and depreciated using the unit-of-production method based on total estimated gross proved petroleum and natural gas reserves as determined by independent engineers.

The relative volumes of petroleum and natural gas reserves and production are converted to equivalent units of oil based on relative energy content of six thousand cubic feet of natural gas to one barrel of oil.

Costs of undeveloped and unproved properties are initially excluded from depletion calculations. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the capitalized costs subject to depletion.

Depreciation of office equipment is on a 20% declining balance basis. Depreciation of vehicle equipment is on a 30% declining balance basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Property and equipment (continued)

Impairment

The Company determines whether an impairment exists by comparing the carrying value of property and equipment to the undiscounted future cash flows expected to result from production of proved reserves, determined by using expected future product prices and costs, and the carrying value of unproved properties, net of any impairments.

If there is an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying value of property and equipment to the estimated net present value of future cash flows from proved and probable reserves and the carrying value of undeveloped properties, net of any impairments. A risk-free interest rate is used to determine the net present value. Any excess carrying value is recorded as a permanent impairment and charged as additional depletion and depreciation expense.

Undeveloped and unproved properties are assessed periodically to determine whether impairment has occurred.

(c) Mining property

The mining property consists of a net smelter return and is recorded at the lower of cost and net recoverable value. Management reviews the carrying values of the mining property on a regular basis to determine whether any write-downs are necessary.

The recoverability of the amount shown for the net smelter return is dependent upon the existence of economically recoverable reserves and upon future production of the mining property.

(d) Asset retirement obligations

The fair value of the liability for the Company's asset retirement obligations is recorded in the period it is incurred with a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows to reclaim and abandon wells and facilities, using the Company's credit-adjusted risk-free interest rate. The liability is subsequently adjusted due to the passage of time and is recorded as an accretion expense. The liability is also adjusted for revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual asset retirement obligations paid are deducted from the liability in the year incurred.

(e) Joint operations

A significant portion of the Company's exploration, development and production activities is conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(f) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The amounts recorded for depletion, depreciation and amortization of property and equipment and the provision for future asset retirement obligation costs are based on estimates. In addition, the property and equipment impairment test calculation is based on estimates of gross proven reserves, future production rates, future petroleum and natural gas prices, future costs and other relevant assumptions. The fair value of stock options is based on estimates using the Black-Scholes option pricing model and is recorded as stock-based compensation expense in the financial statements. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of such estimates in future years could be significant.

(g) Revenue recognition

Petroleum and natural gas revenues are recognized when title passes from the Company to its customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended December 31, 2006, 12 months and December 31, 2005, 13 months

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Cash and cash equivalents

Cash and cash equivalents include bank accounts, an operating line, and term deposits with maturities of less than three months.

(i) Stock-based compensation

The Company follows the fair value method for recognition of stock and stock options awarded to directors, officers, employees and consultants. Under this method, the equity instruments are recorded at their fair value based on the market price of the stock on the date of the grant. For stock options, the fair value is estimated using the Black-Scholes option-pricing model on the date of grant. Compensation costs are recognized over the vesting period of the stock options.

(j) Long term investments

Long term investments are accounted for using the equity method of accounting.

(k) Future income taxes

The Company follows the liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

(l) Flow-through common shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The carrying value of the shares issued is reduced by the income tax effect of the renunciation when the corresponding exploration and development expenditures are renounced.

(m) Per share information

Per share information is calculated using the weighted average number of common shares outstanding during the fiscal year. The treasury stock method of calculating diluted per share amounts is used, whereby any proceeds from the exercise of dilutive stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period.

3. ACQUISITIONS

At various dates during 2005 the Company acquired a total of 3 companies, of which 1 was a related company by way of common management and recorded at the exchange value.

On May 13, 2005 the Company acquired all of the outstanding shares of Neutral Development Corporation. On May 31, 2005 this subsidiary was wound up into the Company.

On July 11, 2005 the Company acquired all of the outstanding shares of Supreme Energy Inc. The consideration consisted of 12,693,290 unrestricted common shares, 2,027,639 escrow common shares, 600,000 share purchase warrants at an exercise price of $0.8205 and expiring January 11, 2007, and three promissory notes in the aggregate amount of $4,000,000. The escrow common shares were being held in escrow, pending resolution of a number of title deficiencies associated with Supreme property interests. One of the promissory notes with a face value of $2,107,616 was exchanged for 2,411,795 flow-through shares of the Company on closing. A second promissory note in the amount of $881,946 was paid out in August 2005. The third promissory note in the amount of $947,438 is held in escrow, pending resolution of a number of title deficiencies associated with the Supreme property interests. On September 30, 2005 this subsidiary was wound up into the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended December 31, 2006, 12 months and December 31, 2005, 13 months

3. ACQUISITIONS (continued)

On August 18, 2005 Western acquired Fairstar through amalgamation to form FairWest. The shareholders of Western received 1 share for each outstanding share of the Company and Fairstar shareholders received 6,275,439 shares. The transaction has been accounted for as a reverse takeover of Fairstar by Western with Western being the continuing entity.

The results of operations for each of the acquired Companies have been included in these consolidated financial statements since the date of acquisition.

	May 13, 2005	July 11, 2005	August 18, 2005	Total
Allocation of purchase price:				
Property and equipment	$ 2,027,662	$ 21,703,579	$ -	$23,731,241
Mining property	-	-	2,172,323	2,172,323
Asset retirement obligation	-	(238,079)	-	(238,079)
Non-cash working capital	(189,696)	(7,527,511)	1,672,901	(6,044,306)
Cash	34	96,129	67,865	164,028
Total purchase price	$ 1,838,000	$ 14,034,118	$ 3,913,089	$19,785,207
Consideration was comprised of:				
Common shares (number)	2,083,630	17,132,724	6,275,439	25,491,793
Value	$ 1,709,618	$ 12,204,734	$ 3,913,089	$17,827,441
Note payable	-	1,829,384	-	1,829,384
Cash	128,382	-	-	128,382
Total consideration	$ 1,838,000	$ 14,034,118	$ 3,913,089	$19,785,207

As per an agreement dated March 24, 2006, 1,158,751 shares held in escrow relating to the July 11, 2005 acquisition of Supreme were cancelled. The value of the cancelled shares was $789,831. In addition, an amount of $507,345, plus accrued interest, of the promissory note was cancelled. These cancellations were due to title deficiencies.

4. DUE FROM RELATED PARTIES

	December 31, 2006	December 31, 2005
ExploreCo Energy Inc.	$ 984,625	-
Bluestone Resources Inc.	$ 19,342	-
Leader Oil & Gas Management Services Inc.	-	$ 168,933
	$ 1,003,967	$ 168,933

The amounts due from ExploreCo Energy Inc. and Bluestone Resources Inc. are in the normal course of business arising from their participation as joint venture partners.

Leader Oil & Gas Management Services Inc. is a company under common management that managed exploration, development and production activities for the acquired companies between September 30, 2004 and May 13, 2005 referred to in note 3. The advances had no fixed terms of repayment and no interest terms. This amount has been paid in full as at December 31, 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended December 31, 2006, 12 months and December 31, 2005, 13 months

5. PROPERTY AND EQUIPMENT

	December 31, 2006		
	Cost	**Accumulated Depletion**	**Net**
Petroleum and natural gas properties and equipment	**$ 45,753,066**	**$ 6,483,538**	**$ 39,269,528**
Office equipment	**270,383**	**66,892**	**203,491**
Truck	**38,118**	**5,718**	**32,400**
	$ 46,061,567	**$ 6,556,148**	**$ 39,505,419**

	December 31, 2005		
	Cost	Accumulated Depletion	Net
Petroleum and natural gas properties and equipment	$ 35,025,010	$ 3,533,371	$ 31,491,639
Office equipment	221,406	22,141	199,265
Truck	35,434	5,315	30,119
	$ 35,281,850	$ 3,560,827	$ 31,721,023

Future development costs on proved reserves of $3,806,000 as at December 31, 2006 are included in the calculation of depletion and depreciation (2005 - $ 1,513,000).

During the period ended December 31, 2006, the Company has capitalized $850,797 (2005 - $391,721) of general and administrative costs, including 143,706 of stock-based compensation and has not capitalized any interest.

At December 31, 2006, the Company has excluded the cost of unproved properties and seismic data of $4,171,202 from the depletion base (2005 - $4,801,262).

As a result of the ceiling test calculation at December 31, 2006, the Company was not required to record an impairment loss. The benchmark prices, adjusted for quality and transportation, used for the ceiling test calculation of the Company's reserves as at December 31, 2006 were as follows:

	Oil Edmonton Par Price Cdn.$/bbl.	Natural Gas AECO – C Spot Cdn.$/mcf
2007	59.90	7.58
2008	57.44	8.11
2009	56.18	7.85
2010	53.83	7.74
2011	52.56	7.89
% increase thereafter	1.9%	2.0%

6. MINING PROPERTY

FairWest has an interest in a net smelter return in the Benso property in Ghana Africa.

		December 31, 2006	
Benso	**Cost**	**Accumulated Amortization**	**Net**
	$ 2,172,323	**0**	**$ 2,172,323**

		December 31, 2005	
Benso	Cost	Accumulated Amortization	Net
	$ 2,172,323	0	$ 2,172,323

7. LONG TERM INVESTMENTS

ExploreCo Energy Inc.

The Company entered into a joint venture agreement with ExploreCo Energy Inc. ("ExploreCo"), dated January 31, 2006. The joint venture agreement allows ExploreCo to participate in the exploration for and development of defined oil and gas opportunities for up to 25% of FairWest's share of these properties.

The joint venture agreement provides the Company the option to acquire 1,665,667 common shares of ExploreCo at a purchase price of $0.30 per share. FairWest's investment is limited by the amount of equity raised by ExploreCo.

The options vest at a rate of one option for every $3.00 of third party subscriptions raised by ExploreCo and expire 30 days from date of vesting. As at December 31, 2006, 874,000 options vested (2005 – 182,333) and were exercised by FairWest at a total price of $262,200 (2005 - $54,700), representing a 25 percent ownership interest in ExploreCo.

During 2006 ExploreCo has paid $207,200 (2005-$55,000) to FairWest in respect of geological and seismic work carried out on the joint venture areas of interest. This transaction was not in the normal course of operations and has been measured at the carrying amount.

Petrovest Exploration & Production Corporation

The Company entered into a joint venture agreement with Petrovest Exploration & Production Corporation ("Petrovest"), dated November 23, 2006. The joint venture agreement allows Petrovest to participate in the exploration for and development of defined oil and gas opportunities for up to 25% of FairWest's share of these properties.

The joint venture agreement provides the Company the option to acquire 999,000 common shares of Petrovest at a purchase price of $0.30 per share. FairWest's investment is limited by the amount of equity raised by Petrovest.

The options vest at a rate of one option for every $3.00 of third party subscriptions raised by Petrovest and expire 30 days from date of vesting. As at December 31, 2006, 208,334 options vested and were exercised by FairWest at a total price of $62,500, representing a 25 percent ownership interest in Petrovest.

During 2006 Petrovest has paid $62,500 to FairWest in respect of geological and seismic work carried out on the joint venture areas of interest. This transaction was not in the normal course of operations and has been measured at the carrying amount.

8. BANK LOAN

The Company has a revolving operating demand loan facility of $5,900,000 that bears interest at the bank prime lending rate plus 0.75 percent. The Company also has a non-revolving acquisition/development demand loan facility of $2,000,000 that bears interest at the bank prime lending rate plus 1.0 percent. The loan facilities are secured by a $10,000,000 demand debenture with a floating charge over the Company's assets. At December 31, 2006 there was $3,682,133 drawn on the revolving operating demand loan facility (2005-$2,845,477). At December 31, 2006 there was $961,679 drawn down on the non revolving demand loan facility. This facility reduces by $50,000 a month effective January 1, 2007. At December 31, 2006 the bank prime rate was 6.0 percent. FairWest is in breach of its working capital covenant under the revolving operating demand loan (Credit Facility A) as at December 31, 2006. The bank has issued a waiver letter for this covenant.

9. NOTES PAYABLE AND DUE TO RELATED PARTY

	December 31, 2005	Cancelled	Paid	December 31, 2006
Escrow Promissory Note –unrelated parties	$ 726,070	$ 384,735	$ 341,335	$ -
Escrow Promissory Note – related party	242,902	128,711	114,191	-
Total Note Payable	$ 968,972	$ 513,446	$ 455,526	$ -

The escrow promissory note bears interest at a variable rate equal to one percent greater then prime rate quoted by the National Bank of Canada and payable monthly. The escrow promissory note was due on July 11, 2006. As of December 31, 2005 $21,534 of interest had accrued on the escrow promissory note and this amount had not been paid. A company controlled by a director of the Company is due $242,902 of the escrow promissory note. On March 24, 2006, $507,345 of the principal portion of the promissory note was cancelled due to title deficiencies. The remaining $440,093 and accrued interest was released from escrow and paid. (Note 3 and 11)

10. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets. The total estimated undiscounted cash flows, adjusted for inflation, required to settle the asset retirement obligations is approximately $3,715,459 (2005 - $1,438,345). The Company estimates that the settlement of these obligations will occur between 2007 and 2030. A credit-adjusted risk-free rate of 5.75% and an inflation rate of 1.5 % were used to calculate the carrying amount.

	December 31, 2006	December 31, 2005
Balance, beginning of period	**$ 541,971**	$ 184,813
Accrued on acquisitions	**-**	238,079
Increase in liabilities	**778,899**	89,612
Decrease on dispositions	**(17,550)**	-
Accretion expense	**72,139**	29,467
Balance, end of period	**$ 1,375,459**	$ 541,971

11. SHARE CAPITAL

Authorized
Unlimited number of Class A Common voting shares
Unlimited number of Class B Common non-voting shares

Issued - Class A Common Shares	**Number of shares**	**Amount**
Balance, November 30, 2004	**15,664,601**	**$ 9,838,373**
Private placement (a)	3,282,000	1,641,000
Private placement (b)	500,000	250,000
Private placement (c)	12,000	6,000
Issued on acquisitions (note 3)	2,083,630	1,709,618
Private placement (note 3) (d)	2,411,795	2,170,616
Issued on acquisitions (note 3)	14,720,929	10,034,118
Private placement (e)	1,572,896	1,415,606
Private placement (f)	1,604,938	1,444,444
Warrants exercised (g)	320,000	160,000
Flow-through shares (h)	1,000,000	600,000
Private placement (i)	3,640,000	1,820,000
Issued on amalgamation (note 3) (j)	6,275,439	3,913,089
Less: share issuance costs	-	(760,527)
Less: tax effect of flow-through renunciation	-	(969,200)
Plus: tax effect of share issuance costs	-	308,799
Balance, December 31, 2005	**53,088,228**	**$ 33,581,936**
Private placement (k)	1,160,000	580,000
Escrow shares cancelled (note 3) (l)	(1,158,751)	(789,831)
Flow-through shares (m)	759,210	455,526
Flow-through shares (n)	1,407,457	844,474
Flow-through shares (o)	4,742,200	3,082,430
Private placement (p)	983,200	540,760
Flow-through shares (q)	929,263	604,021
Normal course issuer's bid (r)	(466,500)	(285,452)
Less: share issuance costs	-	(320,079)
Less: tax effect of flow-through renunciation	-	(3,349,956)
Plus: tax effect of share issuance costs	-	107,011
Balance December 31, 2006	**61,444,307**	**$ 35,050,840**

11. SHARE CAPITAL (continued)

The total shares held in escrow at December 31, 2006, were 1,653,426 all of which were held by Western employees, consultants, and directors, were escrowed upon the amalgamation of Fairstar and Western. (The total number of shares held in escrow at December 31, 2005, was 4,960,286 of which 2,932,647 were held by Western employees, consultants and directors.)

(a) On December 31, 2004 the Company issued 3,282,000 flow-through common shares at $0.50 per share for proceeds of $1,641,000.

(b) On December 27, 2004 the Company issued 500,000 units for proceeds of $250,000. Each unit contained one common share and one share purchase warrant exercisable at $0.50 per share until December 31, 2005.

(c) In February 2005 the Company issued 12,000 common shares at $0.50 per share.

(d) In July 2005 the Company issued 2,411,795 flow-through common shares at $0.90 per share for proceeds of $2,170,616. These flow-through shares were issued in exchange for a $2,170,616 promissory note that was granted to the Supreme Energy Inc. shareholders.

(e) In July 2005 the Company issued 1,572,896 flow-through common shares at $0.90 per share for proceeds of $1,415,606.

(f) In August 2005 the Company issued 1,604,938 flow-through common shares at $0.90 per share for proceeds of $1,444,444.

(g) In December 2005 320,000 warrants were exercised at $0.50 per share for proceeds of $160,000.

(h) On December 30, 2005 the Company issued 1,000,000 flow-through shares at $0.60 per share for proceeds of $600,000.

(i) On December 30, 2005 the Company issued 3,640,000 units at $0.50 per unit for proceeds of $1,820,000. Each unit contained one common share and one-half share purchase warrant, each warrant exercisable at $0.60 per share until July 1, 2007.

(j) On August 18, 2005 the Company issued 6,275,439 common shares to Fairstar shareholders upon amalgamation with Fairstar.

(k) In January 2006 the Company issued 1,160,000 units at $0.50 per unit for proceeds of $580,000. Each unit contained one common share and one half share purchase warrant exercisable at $0.60 per share until July 1, 2007.

(l) On March 24, 2006 the Company cancelled 1,158,751 shares held in escrow due to title deficiencies relating to the Supreme Energy Inc. acquisition.

(m) On March 31, 2006 the Company issued 759,210 flow-through shares at $0.60 per share for proceeds of $455,526.

(n) During April 2006 the Company issued 1,407,457 flow-through shares at $0.60 per share for gross proceeds of $844,474.

(o) On September 29, 2006 the Company issued 4,742,200 flow-through shares at $0.65 per share for proceeds of $3,082,430.

(p) On September 29, 2006 the Company issued 983,200 shares at $0.55 per share for proceeds of $540,760.

(q) On December 29, 2006 the Company issued 929,263 flow-through shares at $0.65 per share for proceeds of $604,021.

(r) During the third and fourth quarters the Company purchased and cancelled 466,500 shares for total cost of $285,452 during the NCIB.

Normal course issuer bid (“NCIB”)

The Company received approval from the Toronto Stock Exchange for a NCIB to commence on September 1, 2006. Under the NCIB, the Company can purchase for cancellation up to 4,553,600 of its Common Shares, representing approximately 10% its outstanding public float at August 28, 2006. This NCIB expires on August 31, 2007.

During the year, the Company purchased, for cancellation, 466,500 Common Shares for total consideration of $217,926. This amount was less than the carrying value of the shares cancelled and an amount of $67,526 was credited to contributed surplus with an offset charge to shareholders equity. The total charge to equity was $285,452 after this adjustment.

11. SHARE CAPITAL (continued)

Stock options

The Stock Option Plan (the "Plan") was adopted in order to offer directors and officers of FairWest, its affiliates and persons and companies providing ongoing services to FairWest and its affiliates the opportunity, through share options, to acquire a proprietary interest in FairWest, thereby providing an additional incentive to the persons and companies contemplated above to promote the best interests of FairWest and to provide the means to FairWest to attract qualified persons. The Plan was given shareholder approval at the annual and special shareholder meeting held April 26, 2006. The Board of Directors administers the Plan.

The vesting period or periods of the Options during which the option or portions thereof may be exercised shall be determined by the Board on the date of grant, provided that Options shall not be exercisable following the expiry of a period which shall be determined at the time of their grant by the Board, said period not exceeding five (5) years following the date of grant.

The maximum number of unissued Common Shares that may be subject to Options granted and outstanding under the Plan at any time shall be 10% of the number of the issued and outstanding Common shares on an undiluted basis ("Outstanding Common shares") which shall include, without limitation, any Common Shares issued as a result of the exercise of Options under this Plan. Common shares in respect of which Options are not granted shall be available for subsequent granting, subject to a maximum number of Common Shares reserved for issuance under the Plan. No fractional shares may be purchased or issued hereunder. If any option granted pursuant to the Plan is not exercised for any reason whatsoever, the Common Shares reserved for issuance pursuant to such option shall revert to the Plan and shall be available for other Options, however, at no time shall there be outstanding Options exceeding in the aggregate, the number of Common Shares of the Company reserved for issuance pursuant to Options under this plan. The number of Common Shares: (i) issuable to Insiders (as such term is defined in the Company Manual of the Toronto Stock Exchange), at any time, under all share compensation arrangements of the Company, shall not exceed 10% of the outstanding Common Shares of FairWest on an undiluted basis, (ii) issuable to Insiders, within any one year period, under all share compensation arrangements, shall not exceed 10% of the Outstanding Common Shares, and (iii) issuable to any single Insider, shall not exceed 5% of the Outstanding Common Shares of FairWest on an undiluted basis.

Changes in the number of options, with weighted average exercise prices are summarized as follows:

	December 31, 2006	
	Number of options	Weighted average exercise price
Balance beginning of period	378,579	1.576
Granted	5,825,000	0.515
Expired	(4,463)	0.670
Cancelled	(300,000)	(0.500)
Balance, December 31, 2006	5,899,116	0.583
Exercisable, December 31, 2006	1,740,783	0.734

	December 31, 2005	
	Number of options	Weighted average exercise price
Balance beginning of period	-	-
Granted	-	-
Issued upon amalgamation	378,579	1.576
Cancelled	-	-
Balance, December 31, 2005	378,579	1.576
Exercisable, December 31, 2005	378,579	1.576

11. SHARE CAPITAL (continued)

As at December 31, 2006, the following options are outstanding:

Number of common shares under option	Exercise price per option	Expiry
45,368	0.908	August 20, 2007
104,129	1.244	December 18, 2007
83,304	1.143	March 6, 2008
141,315	2.319	January 9, 2009
4,100,000	0.500	December 14, 2010
100,000	0.590	January 3, 2011
100,000	0.560	April 26, 2011
1,150,000	0.560	August 20, 2011
75,000	0.510	September 17, 2011
5,899,116		

As at December 31, 2005, the following options are outstanding:

Number of common shares under option	Exercise price per option	Expiry
4,463	0.672	January 30, 2006
45,368	0.908	August 20, 2007
104,129	1.244	December 18, 2007
83,304	1.143	March 6, 2008
141,315	2.319	January 9, 2009
378,579		

All unexercised stock options of Fairstar at August 18, 2005 became options of FairWest on the basis of 1 FairWest option for every 6.7226 Fairstar options held. The number of Fairstar options at August 18, 2005 outstanding was 2,545,000.

Stock-based compensation

Weighted average assumptions and resulting fair value for stock options granted during the years ended December 31, 2005 and 2006 were as follows.

	December 31, 2006	December 31, 2005
Risk free interest rate (%)	**4.196**	-
Expected life (years)	**2.7**	-
Expected volatility (%)	**60**	-
Dividend yield (%)	-	-
Weighted average fair value ($)	**0.266**	-

Total stock-based compensation for 2006 was $431,119 (2005 - $0) with a corresponding credit to contributed surplus. Of the total, $287,413 was expensed and $143,706 was capitalized.

11. SHARE CAPITAL (continued)

Warrants

The Company issues warrants from time to time. Changes in the number of warrants, with weighted average exercise prices are summarized below.

	December 31, 2006	
	Number of Warrants	**Weighted Average Exercise Price**
Balance, beginning of period	**2,420,000**	**0.65**
Issued	**580,000**	**0.60**
Exercised	**-**	**-**
Expired	**-**	**-**
Balance, end of period	**3,000,000**	**0.64**

	December 31, 2005	
	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of period	-	-
Issued	2,920,000	0.63
Exercised	(320,000)	0.50
Expired	(180,000)	0.50
Balance, end of period	2,420,000	0.65

Flow-through shares

The following table summarizes information about flow-through shares outstanding as at December 31, 2006.

			Qualifying Expenditures	
Year Issued	Total flow-through proceeds	Cumulative amount incurred to December 31, 2005	**Cumulative amount incurred to December 31, 2006**	**Expenditures remaining at December 31, 2006**
2004(1)	$ 2,721,000	$ 2,721,000	**$ -**	**$ -**
2005(2)	5,630,665	1,511,769	**5,630,665**	**-**
2006(3)	4,986,451	-	**2,305,553**	**2,680,898**
	$13,338,116	$ 4,232,769	**$ 7,936,218**	**$ 2,680,898**

(1) The tax effect of 2004 flow-through proceeds was recognized in 2005 when the renouncement documents were filed with the tax authorities.

(2) The tax effect of 2005 flow-through proceeds was recognized in 2006 when the renouncement documents were filed with the tax authorities.

(3) The tax effect of the proceeds was recorded in December 2006 except for proceeds of $604,021 for which the tax effect was recorded in February 2007 when the tax documents were filed with the tax authorities. The Company has until December 31, 2007 to incur the qualifying expenditures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Periods ended December 31, 2006, 12 months and December 31, 2005, 13 months

11. SHARE CAPITAL (continued)

Earnings per share

The following sets forth the computed basic and diluted earnings per share.

	December 31, 2006	December 31, 2005
Numerator		
Net loss	**(348,205)**	(695,838)
Denominator		
Weighted average number of common shares	**56,362,509**	31,157,750
Effect of diluted securities stock options	**-**	-
warrants	**-**	-
	56,362,509	31,157,750
Basic loss per share	**(0.006)**	(0.022)
Diluted loss per share	**(0.006)**	(0.022)

All of the outstanding stock options and warrants are potentially dilutive but were not included in the calculation of diluted earnings per share for the period ended December 31, 2006 and 2005 because to do so would be anti-dilutive.

12. DEFICIT

At the Annual General Meeting the shareholders approved the application of the Corporation's contributed surplus and cumulative translation adjustment against the deficit. This resulted in the removal of both of the contributed surplus and cumulative translation adjustment from the Corporation's balance sheet and a reduction of the Corporation's deficit as at March 31, 2006.

The total of the adjustment to the deficit for the period is as follows:

	December 31, 2006	December 31, 2005
Contributed surplus adjustment	**$ 19,341,362**	$ -
Cumulative translation adjustment	**(1,630,313)**	-
Adjustment for the period	**$ 17,711,049**	$ -

13. CONTRIBUTED SURPLUS

The contributed surplus balance at December 31, 2006 after the above adjustment is comprised of the following items:

	December 31, 2006	December 31, 2005
Balance, beginning of period	**$ 19,341,362**	$ 19,341,362
Adjustment (see note 12)	**(19,341,362)**	-
Stock-based compensation	**431,119**	-
NCIB adjustment (excess carrying value of shares over purchase price)	**67,526**	-
Balance, end of period	**$ 498,645**	$ 19,341,362

14. ROYALTY ADJUSTMENT

Royalty adjustments resulting from prior period differences between estimated and actual freehold and gross overriding royalties have been recorded in the period ended December 31, 2006 as follows:

	December 31, 2006	December 31, 2005
Freehold royalty	**$ 251,965**	$ -
Gross overriding royalty	**181,043**	-
Total	**$ 433,008**	$ -

The above royalty adjustment pertains to the properties which were acquired from Supreme. FairWest did not have complete royalty percentage information available for the wells purchased and used estimated percentages for freehold and gross overriding royalties that were calculated by an independent source. The royalties were not being charged out by the operator of the properties to enable verification of estimates used. Integration of these properties has now been completed and all royalty information has been updated.

15. INCOME TAXES

a) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 35.62 % (2005 – 37.62%) to the loss for the periods as follows:

	December 31, 2006	December 31, 2005
Loss for the period before income taxes	**$ (1,759,550)**	$ (1,356,238)
Statutory rate	**35.62%**	37.62%
Expected income tax	**(626,800)**	(510,200)
Increase (decrease) resulting from:		
Resource allowance	**(34,200)**	(194,900)
Non-deductible crown payments	**29,000**	143,300
Non-taxable portion of gain on disposal of assets	**(60,600)**	(42,000)
Other non-deductible items	**3,600**	-
Stock-based compensation	**153,600**	-
Decrease in corporate tax rates	**51,861**	261,500
Lower effective rate attributable to decreasing rates in future	**(158,311)**	-
Utilization of previously unrecognized losses	**-**	(1,234,900)
Valuation allowance	**(769,495)**	916,800
Provision for income taxes	**$ (1,411,345)**	$ (660,400)

b) The components of the Company's future income tax assets and liabilities are as follows:

	December 31, 2006	December 31, 2005
Future income tax assets:		
Share issuance costs	**$ 246,800**	$ 180,500
Non capital loss carry forwards	**4,325,400**	6,745,700
Asset retirement obligation	**463,000**	193,300
	5,035,200	7,119,500
Valuation allowance	**-**	(914,600)
	5,035,200	6,204,900
Future income tax liabilities:		
Property and equipment	**6,866,800**	6,204,900
Net future income tax liability	**$ 1,831,600**	$ -

15. INCOME TAXES (continued)

The Company has non-capital losses available to reduce future taxable income as follows:

Year of Expiry	**Amount**
2007	$ 4,576,120
2008	876,581
2009	3,608,139
2013	3,789,415
	$12,850,255

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non cash working capital	**December 31, 2006**	December 31, 2005
Changes in accounts receivable	**$ 419,824**	$ (2,056,674)
Changes in prepaid expenses and deposits	**(17,632)**	(46,544)
Change in accounts payable and accrued liabilities	**2,493,797**	(4,021,289)
	$ 2,895,989	$ (6,124,507)
Relating to		
Operating activities	**$ 1,458,218**	$ (9,628,144)
Investing activities	**1,437,771**	3,741,271
Financing activities	**-**	(237,634)
	$ 2,895,989	$ (6,124,507)

Interest paid in the year	**$ 256,115**	$ 179,235
Part XII.6 taxes paid in the year	**$ 77,516**	$ 62,575

17. FINANCIAL INSTRUMENTS

Fair value

The Company's carrying value of cash and cash equivalents, accounts receivable, due from related parties, bank loan payable, and accounts payable approximates their fair values due to the immediate or short-term maturity of these instruments.

Credit risk

The Company is exposed to credit risk on the accounts receivable with customers and joint venture partners in the petroleum and natural gas industry. The Company sells its production through joint venture operators under normal industry sale and payment terms.

Interest rate risk

The Company is subject to a floating interest rate on its credit facilities.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuation in commodity prices.

At December 31, 2006 the Company has no material forward contracts outstanding or any financial instruments related to exchange rates, interest rates or commodity prices.

18. CONTRACTUAL OBLIGATIONS

The Company's total obligations, under a property lease agreement, exclusive of occupancy costs, are as follows:

2007	$ 49,071
2008	65,428
Total	$ 114,499

19. CONTINGENT LIABILITIES

(a) FairWest has received a statement of claim in the amount of $135,693 from Aero Drilling & Consulting Ltd., in respect of services provided to a subcontractor of Supreme Energy Inc. FairWest is defending the claim.

(b) FairWest has received notice of a reassessment from Revenu Quebec for the period ended February 28, 2003, in the amount of $211,243, including interest, which relates to Fairstar. The Company has filed a notice of objection and does not believe that the reassessment is valid.

Management and their legal counsel have reviewed these claims and consider them to be without merit. No provisions with respect to these matters have been made in the consolidated financial statements.

20. SUBSEQUENT EVENTS

(a) On March 12, 2007 FairWest and Strike Petroleum Ltd. announced that they have agreed to a Plan of Arrangement ("Arrangement") whereby FairWest will acquire all of the issued and outstanding shares of Strike and settle the majority of Strike's unsecured debt. The ratio of Strike shares to be exchanged for FairWest shares has been agreed by the board of directors of Strike and FairWest at 1.798 Strike shares for 1 FairWest share. The Boards of Directors of Strike and FairWest have unanimously approved the Arrangement and Strike's Board has agreed, as part of the Arrangement, to recommend that the shareholders and creditors of Strike vote in favor of the Arrangement. The Arrangement is anticipated to close on or about April 30, 2007.

The Arrangement is subject to certain arrangements being made with Strike's creditors and securityholders, as set forth in an information circular which will be mailed to Strike creditors and securityholders in March 2007. The transactions contemplated by the plan of arrangement are subject to a number of conditions including the following:

- approval of the Arrangement by securityholders and creditors of Strike;
- receipt by Strike and FairWest of satisfactory fairness opinions;
- regulatory approval including TSX Venture and TSX approval;
- the granting of a final order by the Court of Queen's Bench of Alberta, approving the Arrangement; and
- no material adverse change shall have occurred in the affairs of Strike or FairWest.

(b) During January 2007, 300,000 share options were granted to consultants at an exercise price of $0.42. These options will vest over a 3 year period and expire in January 2012. Also, 300,000 share options to a former employee with an exercise price of $0.50 and 500,000 share options to former employees with an exercise price of $0.56 were cancelled.

(c) In March 2007, FairWest announced a flow-through offering of up to 10,000,000 flow-through common shares at $0.50 per flow-through share for proceeds of up to $5,000,000.

CORPORATE INFORMATION

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Chief Financial Officer

J. Gordon Ironside
Business Development Consultant

Michael G. Lambros
Vice President Land

Darlene Zeck
Director of Administration

Diane Dyble
Sr. Contracts Analyst

Janette Thomson
Administrative Assistant

John Wagner
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(3) Compensation Committee
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